Thrift and Readjustment

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THE problems before us are more or less familiar to all, in name at least. Millions of soldiers and millions more of civilians backing them up have been engaged in work which the signing of the armistice has made useless. They cannot continue this work,—neither they nor we can afford to have them do nothing. They should be added to the existing labor supply, the productive energy of the nation, not in a manner to take away the work of others and cause idleness or unemployment, but in such a way as to produce an additional amount of goods and services somewhat proportionate to the amount of labor added to that already engaged in the industries of peace.

Modern production is carried on mostly by machinery. Old machinery not of a character to aid in the war probably has not been kept in good repair and practically all of the new has been constructed for war purposes. Some of the latter can be converted easily to peace-time production, some can be changed only at a considerable cost, some will be nearly a total loss.

It is easy to say that this labor and plant must be converted to peace uses; it is another thing to bring about a proper readjustment, a readjustment that keeps all parts of the industrial machine working in unison while it is turning out the proper kinds and quantities of goods and services, that is, turning out such quantities of such varieties that they will exchange on such bases that the industrial machine will be kept going at the maximum of efficiency.

Some have suggested that there may be an oversupply of labor; this is one of the most persistent and mischievous half-truths of all the half-truth clan. One might as well say there is too much capital or too much land, or too much water. In a certain situation there may be too much land to go with the amount of water or labor or capital or something else available at just that place and time; it is largely a question of proportion. So there may be too much labor in some particular case to mix to advantage

with the other ingredients or factors of the local industrial situation. But so long as men have wants that are unsatisfied and which can be satisfied by working there can be no general oversupply of labor. For all practical purposes, the economists are correct in assuming that human wants are indefinitely great, that as soon as some are reasonably satisfied, other and usually larger ones take their places. A boy longs for a bicycle; by the time he gets it, he wants an automobile, a yacht, an aeroplane. There is no limit to wants—hence no limit to labor to be done. The difficulty is in connecting up the man and the job under proper conditions.

The fundamental features of our present industrial régime which are essential to have in mind for present purposes are division of labor, large-scale machine production, and organization and management by captains of industry who pay wages to laborers for their services and who buy their raw materials and sell their finished products in a more or less competitive market. Production is for the market and for a profit. In the case of both managers and laborers, expenses and income take the form of money prices, prices for goods and prices for services. It is assumed that for the most part, any one is free to buy or sell goods or services wherever and whenever he can do so to his own best interests. It is assumed, also, that the free play of competition in the selling and buying of goods and services for money prices to secure individual gains, with only a minimum of government regulation, will result in a greater balance of gain to society than would general regulation by a king or by government officials whose limitations have so often been proved in the past.

PRICE THE REGULATOR

It is important to see that in this competitive industrial régime the governor or regulator of action is price, future or anticipated price. Shall the managers of railroads, of steel plants, of building operations, of this or that enterprise, order this or that quantity of raw material, take on this or that amount of additional labor or let off part of what they have?

The answers depend upon what prices will have to be paid now and in the future for labor, raw materials and other factors in production and what prices will be received ultimately for fin-

ished products. Some of the returns on this year's expenditures may be received this year, but in many instances, as for example in the cases of expenditures for the construction of railroads and factories, most of the returns will be strung out over many years, often for several decades. Every manager who does not make a sufficiently good estimate of the thousands of prices involved in the near and distant future leads his enterprise, not to profits, but to bankruptcy. Every laborer who misjudges the operations and results of the industrial complex, most of which are both causes and effects of prices, fails to profit to the maximum in securing the best prices for his services; in fact he may, at more or less frequent and prolonged intervals, be idle and unproductive. Bankruptcy merely takes a different form in his case.

Future prices are uncertain at all times. The annual lists of business failures, labor disturbances, losses, unusual profits, etc., are sufficient proof of this. The European war, with its extraordinary demands, its accompanying inflation of credit, its partial regulation of prices and its many other imponderable influences, has brought about a situation which makes future prices much more uncertain than they usually are. Nothing of importance that one can mention, whether it be the reaction from government control, labor unrest, Bolshevism, the league of nations, the German indemnity, or what not, is without significant influence on future prices which are now governing industry's plans for the near and distant future.

When men are in doubt they hesitate to go forward; when the road ahead suddenly becomes extremely uncertain or filled with obstacles, they suddenly shift to lower speed or even throw on the brakes and come to a dead standstill, thus blocking the progress of every one else. The war has raised prices to an enormous height. Some are relatively much higher than others, but all are high. Now that the war is over, exactly what is going to happen this year and the next and the next to this, that and every other price, including wages, the price of services? Give a definite and authoritative answer to this question, one which everybody can accept with assurance, and the industrial machine will immediately begin to regain momentum. If to certainty could be added industrial and social equity, even the war-time speed could be exceeded.

Let no one misunderstand us to say that high prices are the cause of all evils for they are far from being the only obstacles to readjustment. In fact, we could soon become adjusted to prices at almost any level if they were relatively stable. It is because prices have been made so high by temporary circumstances that their future courses are extremely uncertain. Even if prices were stabilized there would still be many problems to solve, hence in emphasizing the importance of giving more stability to prices there is no intention of over-emphasis nor is there any belief that any remedy will prove to be a panacea. But it is true not only that the giving of more stability to prices would help materially in our industrial readjustment but it is true also that a very simple, effective and old fashioned remedy can easily be adopted by the American people if they appreciate its efficacy and the desirability of its use.

MONEY AND CREDIT INFLATION

Before any cure is suggested, the cause should be recalled. Why are prices so much higher than before the war? The war's demand raised the prices of those commodities badly needed for war purposes but the same cause would tend to lower prices of goods not needed for war. As a matter of fact, nearly all prices have risen. In other words there has been a *general* cause affecting all commodities and in the case of prime war necessities there has been an additional cause, so that prices of such goods have risen the most unless kept down by government regulation. Hence, the ending of the war removes one of the main causes affecting war necessities, though the present need of food and re-equipment, especially in Europe, will be a large, unusual and somewhat disturbing factor for months to come. But the chief cause of the general rise in prices has been credit inflation.

Put in another way, there has been too much borrowing rather than saving to secure funds. Borrowing increases bank credit which takes the place of money. Money is a counter or ticket used in exchanging goods. If the number of meal tickets is increased more than the food for which they are exchanged, each ticket becomes worth less, or more tickets have to be given for the same meal. If money, or bank credit which takes its place, is increased more rapidly than business, or than goods for which money is

exchanged, then each ticket or dollar becomes worth less or it takes more tickets to get the same goods. Prices go up as we say. An increase in money and bank credit proportionate to the increase of business or goods exchanged will result in little or no change in prices, other things remaining equal.

An appreciation of the cause suggests the remedy. There is no way to eliminate the inflation except to produce and save a surplus so as to restore the former proportion between goods and counters. The production and saving of goods enables one to pay off his debt and thus cancel that much bank credit. If no debt is paid, the creation and saving of goods increases the proportion of goods to money counters and thus helps to reduce inflation. But before going further it might be well to note a few statistics indicating the extent of the present inflation.

The total general stock of money in the United States in millions of dollars was 3,736 on August 1, 1914, at the beginning of the European War; 5,312 on April 1, 1917, when we entered the war and 7,781 on January 1, 1919. The above figures include (1) money held in the Treasury as assets of the government, (2) money held by federal reserve banks and federal reserve agents against issues of federal reserve notes and (3) "money in circulation." If we take only the money in circulation for the three dates above, the figures are 3,367, 4,702 and 5,951 millions of dollars respectively. Expressed in terms of percentages, the general stock of money for the three dates is represented by 100, 142 and 208 and the money in circulation by 100, 140 and 177.

The loans and discounts, plus overdrafts, bonds and other securities, which are mostly sorts of loans, for all banks in the United States (except federal reserve banks) in millions of dollars were 20,924 in 1914, 28,645 in 1917 and 32,316 in 1918. In other words the most important items of bank credit show an increase of 37 per cent between 1914 and 1917 and a still further increase to 54 per cent in 1918. Complete up-to-date figures, if available, would doubtless show a further increase.

The United States Bureau of Labor Statistics takes 1913 prices at 100 as the basis of its index number for principal classes of commodities in the United States. The following approximate figures indicate how general prices have risen:

	1913 (Basis)	Aug. 1, 1914	Apr. 1, 1917	Jan. 1, 1919
Wholesale prices	100	99	171	200
Retail prices	100	102	145	187

According to the same authority, rates of union wages per week, full time, have risen from 100 in 1913 to 112 in 1917, and to 130 in 1918, the wages for May when annual contracts are annually made being taken in each year.

The effects of the money and credit inflation in the United States are confirmed by the experience of Great Britain and other countries. For example, the bank note circulation of the United Kingdom increased 157 per cent from July 1914 to November 1918 while general prices increased 142 per cent. There can be no doubt of the inflation nor of the effect of inflation upon prices.

This inflation has made the government's expenses higher and its war debts more enormous. Wages and salaries which have not risen as fast as prices buy less than before the war. A thousand dollar insurance policy, if paid now, would buy little more than half what it would have bought if paid five years ago. The long-time investments of savings banks, insurance companies and others bring in the same number of dollars in interest as formerly but the dollars have less purchasing power and the capital or market values of the investments themselves have shrunken. In the interest of all recent contracts there is reason for continuing inflation so that the contracts may be settled on an unchanged price level; in the interest of pre-war obligations the argument is for a return to the pre-war price basis. For example, war debts could be paid more easily with cheap dollars if the present inflation were continued than with dear dollars if there is much deflation. There is even much argument for the continuation of inflation as means of meeting the extremely difficult problem of wage readjustment. It would certainly smooth over some psychological obstacles, though it might not improve the equitableness of the general situation.

But there are weighty reasons against continuing the present inflation. In the first place it threatens the gold standard upon which our monetary and banking systems are based. Why all the anxiety over the decline in gold production? The reason is that financiers are fearful that if much more credit is added to the

base of the inverted pyramid the present gold reserve which forms its apex will be too small and narrow to keep it from tottering. This is in spite of the fact that there are now over three billion dollars of gold in the United States as compared with less than one billion nine hundred millions August 1, 1914, an increase of 60 per cent.

As mentioned above, to keep prices stable, money and substitutes for money should increase at about the same rate as the increase in the production of goods. Even before the war, gold output and credit based upon it were increasing more rapidly than goods so that prices were rising. It is estimated that during the war our production of goods increased by 20 or 25 per cent but our money and credit by over 50 per cent, so that prices have risen more rapidly than ever. If paper money or bank credit were always generally acceptable in exchanges, as they have about come to be in the United States, and if the amounts of the same were always kept proportionate to the amount of business done, use for gold would be for the arts only and most of the human energy that is devoted to prospecting and mining gold might be turned to the production of wheat, shoes, houses, and other necessities which so many of our people lack. One of the chief reasons why we cannot cast gold aside and rely on paper or fiat money is that no set of legislators has ever been found that can resist the temptation in times of stress to raise money in an easy way. Why levy burdensome taxes when the printing press can turn out a wagon load of money in an hour? Of course, this is increasing the counters without increasing goods produced. It is inflation with all of its evil consequences.

Gold is a better money because it is so difficult to discover and dig out; the cost puts a limit upon the output. The more the output is limited the more each ounce is worth; as it becomes worth more there is greater inducement to increase production until each ounce becomes worth less. Then production is checked. Thus there is an automatic regulation of gold as a monetary basis. But so long as legislators possess their present human frailties, there can be no such regulation of paper money output except by making it redeemable in the costly gold.

The high prices caused by the recent credit inflation make gold costly to mine, hence we hear a good deal about stimulating gold

mining by means of premiums or tax exemptions or other bonuses. Such measures are foolish; they try to destroy artifically the automatic and salutary regulation of gold production mentioned above. The trouble is not that there is too little gold in our reserves, but that the gold we have is called upon to hold up too large a volume of inflation. Reduce the inflation and promote stability instead of adopting artificial measures which in the long run are apt to act as boomerangs.

There is another important reason for checking and decreasing inflation. That is foreign trade which, of course, includes European reconstruction requirements. Devastated European and other countries need our goods, the former especially need them badly. Large foreign orders would allow many American plants to run at 90 per cent instead of at 60 per cent capacity and would give employment to thousands of men and either directly or indirectly would stimulate agriculture, mining, transportation, and every other industry in the United States.

But foreign orders are not coming here in quanity for two main reasons, first because of lack of means to pay for American goods, second because of uncertainties, especially, high and uncertain prices. How shall the war burdened European countries pay for American goods? They cannot well spare gold. Their credit inflation exceeds ours. It rests upon a smaller apex of gold reserve. Besides we do not need their gold. More would result in higher prices here and consequently fewer orders from them. They can pay partly but not entirely in goods which they may send us. Inasmuch as they cannot spare their gold to pay for the balance, if we are to ship the large quantities which we should for the sake of our own interests as well as theirs, we must arrange to grant them credit. This means that America must send them goods and accept pay later; in other words, that America must produce and save a surplus for export.

But with prices as high and uncertain as they now are, foreign as well as American enterprisers hesitate to buy. Their expenses and capital investment might easily be so great that when lower prices come they could not meet interest and other costs. They would be in danger of having losses instead of profits; in fact, many would probably end in bankruptcy, and in the long run it would not be wise for American investors to finance such undertakings

on the present price level. It is obvious that the development of a stable and solvent foreign trade would be a big step in the solution of our immediate readjustment problems and would bring in dividends for years to come, to say nothing of the immense benefits to devastated Europe.

THRIFT THE REMEDY FOR INFLATION

We have already seen how the increase of money and credit has outrun the production of goods, due largely to the fact that bank credit, that is, borrowing, has increased faster than the production of goods; or, to put it in another way, because the great mass of American people have borrowed to buy when they should have saved, and thus have brought about an unstable situation which is one of the main obstacles to readjustment.

The government expects to have another huge loan drive in April and may have to secure billions in addition through war savings stamps or through the banks later. In so far as such borrowings are not paid out of the surplus production and savings of the people of the United States they will add to the existing credit inflation. Besides the government, the railroads, industrial enterprises, farmers, and others throughout the United States need vast amounts of capital. Inflation and all its evils can be cured in no other way than in the production and saving of goods which will allow the paying off of debts and the restoration of the proper proportion between money counters and goods.

This is no time for checking production, especially production of equipment and other durable goods, nor is it a time to let up in our war on waste. Conservation of resources, planning for the future, wise spending and economy are scarcely less urgent now than before the armistice was signed. The savings movement born of the war should be continued and developed. In fact, there is a pressing need for every agency and person in the United States whether savings bank, insurance company, manufacturer, merchant, miner, artisan, farmer, or individual of whatever interest, to coöperate with the government in its nation-wide campaign to make thrift a national habit.